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REPORT SUMMARY

- **SUPPORT ADULT USE RECREATIONAL MARKET**
- **ENOUGH GROW POTENTIAL ALREADY EXISTS FOR MEDICAL & RECREATIONAL MARKETS**
- **LEGALIZATION WOULD BE A REVENUE AND JOBS DRIVER**

INTRODUCTION:

This memo serves to provide a historic background of cannabis in the State of Rhode Island. It provides an overview of the legalization of Medical Marijuana, the creation of Compassion Centers, the licensing of Cultivators and the current state of the supply and demand of marijuana as the state considers legalizing adult use marijuana. It is clear from the landscape that Rhode Island would benefit significantly and immediately upon the legalization of adult use marijuana, with only minimal changes to the regulatory framework that the state currently has in place.

HISTORY:

Medical Marijuana was legalized in Rhode Island in 2006. The first Compassion Centers opened in Spring of 2013, and the first licensed and regulated, compliant cultivators began operations in January 2017. Cultivator licenses were issued under an emergency act by Governor Raimondo due to the fact that Compassion Centers could not grow enough to supply patients. As a result, Compassion Centers were forced to turn to patients and caregivers who were deemed eligible by the state to sell untested, unregulated "medicine" out of their basements, homes, or rented warehouses directly to the Compassion Centers for cash equivalent checks, and a 1099 was issued at year's end. Patients, along with caregivers and co-ops formed by patients and caregivers, were all receiving 1099 tax forms from these direct sales to compassion centers for many years; in some cases, in the amount of a million dollars or more. This scheme resulted in a situation where essentially anyone with a patient card was allowed to run a mom-

and-pop marijuana cultivation for-profit business out of their home or rented warehouse for purposes of selling their product to a Compassion Center.

In an effort to stop the grey market sale of unsafe, unregulated, sometimes pesticide or mold ridden "medicine", and to stop patients and caregivers from running cash businesses from their homes and warehouses, emergency regulations were promulgated in the Fall of 2016. This prompted the issuance of the heavily regulated cultivator, processing and manufacturing licenses in early 2017. This act no longer allowed patients or caregivers and co-ops to sell directly to the Compassion Centers. Compassion Centers could only purchase from licensed, regulated and compliant cultivators. Licensed cultivators could only sell to one of the three Compassion Centers. This change was also thought to put the infrastructure in place for adult use cannabis, as it was seen as imminent by the administration.

In hindsight, however, the state issued far too many cultivator, processing and manufacturing licenses. There was no limit placed on the number of licenses, partially due to the fear of litigation around licensing, which at the time had just occurred in the first round of licensing in Massachusetts. While these administrative changes addressed some important issues, Rhode Island shifted from a scenario with an under-supply of unsafe medicine to the extreme opposite of an over-supply of safe, regulated and compliant medicine. This has been the case for the past four years.

We now have an abundance of cultivation, processing, and manufacturing licenses. The number of licenses currently in place and operational are more than sufficient to supply the medical and adult use marijuana programs, if and when that latter program is implemented. This combined with the fact that there are only three retailers purchasing the product, and those same retailers can also cultivate and manufacture, is the reason we have had a major imbalance in the supply and demand chain for the last 4 years.

THE CURRENT LICENSE STRUCTURE:

At present, there are two types of licenses; one is for Compassion Centers and the second is for Medical Marijuana Cultivators. Some of these Medical Marijuana licensees also are licensed to manufacture and process other items such as concentrates and edibles.

There are three operating Compassion Centers, and an additional six licenses are expected to be awarded in 2021. There is only one type of Compassion Center license. Compassion centers are also allowed to cultivate, process and manufacture themselves.

There are 62 approved and operational licensed Cultivators. Many of those Cultivator licensees have been approved for processing and manufacturing as well.

THE ISSUE:

No new cultivation is needed in Rhode Island to support the passage of adult use legislation. Given the vast amount of cultivation, processing and manufacturing licenses already in place, it is questionable if even one more square foot of cultivation licensing will be needed. If there is a future need for additional cultivation, the existing licensed cultivators could easily expand their footprint to fill supply demands. To issue more cultivation, processing and manufacturing licenses would only cause more imbalance to an already uneven regulatory system.

Cultivation licenses come in three sizes and are limited by the square feet of operational footprint: Micro, which can have a maximum size of 2,500 sq ft, Class A with a maximum size of 5,000 sq ft, and Class B with a maximum size of 10,000 sq ft. At this time there are 21 Micros, 21 Class A, and 20 Class B licenses that are active, and another 1 Micro, 3 Class A, and 6 Class B licenses that have pre-approved applications waiting for final approval. That yields 73 cultivators with a total possible canopy of 435,000 sq feet, not including existing Compassion Center canopy. There is plenty to supply both the medical and adult use markets.

REVENUE AND JOBS:

Annual revenue from licensing fees is currently \$1,500,000 from Compassion Centers, and \$1,225,000 from Cultivators. When all additional licenses have been awarded, revenue from licensing will be \$4,500,000 from Compassion Centers and \$1,500,000 from Cultivators.

Currently, Adult use of Cannabis is legal in CA, OR, WA, AK, MT, AZ, NV, CO, IL, MI, NJ, VT, ME, NY, SD, VA, DC and most importantly, in Massachusetts. New York and Connecticut are likely to enact adult use in the near future as well.

We strongly believe that legalized Cannabis use for adults over the age of 21 would be beneficial for Rhode Island for the following reasons:

- 1) Increased state revenue
- 2) Lowered opiate usage
- 3) Lowered incarceration rates
- 4) Any perceived negative safety or social issues are here already due to proximity of MA

Currently, there are over 700 employees working in the Medical Marijuana industry in Rhode Island. If adult use marijuana is legalized, we can expect the number of full time jobs in this industry to increase to over 2,000. Job growth is imperative in the state, especially in light of the impact COVID-19 has had on the citizens of Rhode Island. This is an opportunity to put Rhode Islanders back to work.

THE NUMBERS:

The three most mature adult use markets are Colorado, Oregon and Nevada. Sales data from those three states shows that in a pre-Covid, mature marijuana market, a per capita annual spend of \$210 can be expected.

Rhode Island currently has a population of 1,057,000, so in a mature market expected sales here would be \$221,970,000.

A mature market of \$221M divided by nine dispensaries would yield average sales of over \$24,000,000 in sales for each of the nine dispensaries. The market will allow a limited number of new dispensaries.

At an average cost of \$10 per gram at retail, the 435,000 square feet of total licensed cultivation area will be able to produce \$226,200,000 of cannabis per year, which is more than is needed for the adult use market. No more cultivation footprint, or cultivation licenses are needed to meet the expected demand of a mature market. In Rhode Island.

CONCLUSION:

Legalizing adult use cannabis will result in an immediate and substantial increase in tax revenue for Rhode Island. That, coupled with lower opiate usage, decreased police spending and lower incarceration rates for drug crimes, illustrates that legalization of adult use cannabis makes sense for Rhode Island.

With legalization, a limited number of additional dispensaries would be needed. Additionally, there are already more than enough licensed Cultivators/Manufacturers/Processors in place today. No additional licenses in those categories are needed.

Rhode Island stands to benefit greatly by legalizing adult use cannabis, with only minimal changes to the current regulatory framework. The process could prove to be very simple and quickly produce much needed tax revenue and over 1,000 new jobs.

